VZCZCXRO6986
PP RUEHPA
DE RUEHUJA #0962/01 1171703
ZNR UUUUU ZZH
P 271703Z APR 06
FM AMEMBASSY ABUJA
TO RUEHC/SECSTATE WASHDC PRIORITY 5437
INFO RUEHZK/ECOWAS COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 ABUJA 000962

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TREASURY FOR DAN PETERS
DEPARTMENT PASS USTR for L. AGAMA
USDOC FOR 3317/ITA/OA/KBURRESS
USDOC FOR 3130/USFC/OIO/ANESA/DHARRIS

E.O. 12958: N/A
TAGS: ETRD ECIN EFIN NI
SUBJECT: ECOWAS: STUMBLING TOWARD CONVERGENCE

REF: ABUJA 770

¶1. Summary. After years of false starts, the Economic Community of West African States (ECOWAS) is taking concrete steps toward a customs and monetary union. The former French colonies minus Guinea already have both, and the others are trying to follow suit. The customs union and common external tariff (CET) are being implemented now, though late and with exceptions, and the main non-CFA countries are holding regular consultations on monetary convergence. The goal is to create a new currency for the non-CFA countries and eventually merge it with the CFA franc. The CET is a pre-requisite for an EU-ECOWAS Economic Partnership Agreement, needed to "grandfather" the Lome and Cotonou Conventions' post-colonial trade preferences into the WTO framework. If trade convergence is successful, several U.S. multinationals plan to expand or diversify production facilities in ECOWAS countries to serve the whole sub-region. With half of ECOWAS's GDP and more than half of its people, Nigeria's cooperation will be the key to ECOWAS's success or failure as an economic union. Given Nigeria's infrastructure and policy difficulties in the manufacturing sector (reftel), it may not be competitive initially in the ECOWAS customs union. End summary.

¶2. From discussions with ECOWAS and GON officials as well as private business people, it appears that ECOWAS, after many years of false starts, is starting to make measured progress toward the economic goals for which it was originally founded.

Customs Union and Common External Tariff

¶3. During negotiations in 2004 and 2005 for the Common External Tariff (CET), the Nigerian representatives reportedly had few comments on the various tariff classifications and received little guidance from Abuja. When it came time to implement the CET on July 1, 2005 Nigeria was not ready. The GON finally began to implement the CET in October 2005, though Finance Ministry officials have told us that the tariff schedule even now is a work in progress.

¶4. Nigeria adopted the CET structure of four tariff bands, namely 0% or 5% on capital goods, raw materials and essential items such as medicines; 10% on intermediate goods and 20% on finished goods. It added a fifth band not authorized by ECOWAS: a 50% infant industry tariff on goods that compete with those produced in Nigeria. In January 2007, all trade bans are supposed to end and the banned

items will instead face the 50% tariff. Though the additional band came as a surprise to our ECOWAS interlocutors, they expressed confidence in Nigeria's stated intention to abolish this category and merge it into the four-band system by the end of 2007.

¶5. In the meantime, Nigeria is continuing its ECOWAS- and WTO-illegal trade bans while using the CET as political cover domestically. So far, the CET has met with opposition from the Manufacturers' Association of Nigeria (MAN) because of Nigeria's lack of competitiveness due to poor infrastructure and unfavorable domestic economic policies. The GON is assuring trading partners that CET implementation will eventually end its ad hoc approach to trade policy, and it does appear intent on implementing the CET, even if somewhat erratically. U.S. multinationals that manufacture in Nigeria have told us they intend to expand their Nigerian operations to supply other ECOWAS countries or to manufacture for the Nigerian market in other ECOWAS countries, depending on comparative advantages.

¶6. The CET is important as a pre-requisite for an EU-ECOWAS Economic Partnership Agreement. The European Union and ECOWAS must conclude this agreement for Europe's post-colonial trade preferences under the Lome and Cotonou Conventions to be "grandfathered" into the WTO framework. ECOWAS officials are very keen on this agreement for institutional reasons: instead of having 25 European trade and aid policies toward 15 West African countries, the EU would like to develop unified trade and aid strategies on a region-to-region basis. This could raise the status of ECOWAS from economic talk shop to regional economic focal point.

Inching toward Monetary Union

7.. ECOWAS's strategy for the countries not currently part of the Communaute Financiere Africaine (CFA), the post-colonial currency union to which most of the former French colonies in the sub-region belong, is for the non-CFA countries to coordinate their fiscal and monetary policies, form their own sub-regional currency by December 1, 2009, and eventually merge their currency zone with that of the CFA franc.

¶8. Convergence criteria for the non-CFA countries are quite ambitious. The Central Bank of Nigeria (CBN) refers to them as the "four pillars": (1) single-digit inflation; (2) a government deficit less than or equal to 3% of GDP; (3) "external viability," defined as having enough foreign exchange on hand to cover three months' worth of imports; and (4) no central bank financing of the government's deficit. The four criteria are highly inter-correlated, reinforcing convergence when followed and derailing it when not followed.

¶9. The participating countries have started to implement some necessary coordination mechanisms, such as a real-time gross settlement system (RTGS). They are discussing draft statutes on harmonized banking supervision and financial surveillance and a draft West African Central Bank Act. They are recruiting staff for the West African Monetary Institute (WAMI), based in Ghana. ECOWAS and CBN officials hope that political will, joint institutions, common strategies and fiscal and monetary discipline will keep participating countries moving steadily toward monetary union. Liberia and Cape Verde, while not actively participating, are interested in the intended currency zone and monitor its progress.

¶10. Comment: As in the case of most economic unions, trade convergence is likely to go much faster than monetary

convergence. A liberalized trade regime may initially harm Nigeria's already weak and tiny (4% of GDP) manufacturing sector, which is barely able to function even with high protective barriers. Overall, though the very restrictive trade regime almost certainly harms Nigeria's economy, including manufacturing, more than it helps, imposing high costs across the board. In the end, simply having a stable a trade regime would be a boon to Nigeria. End comment.